

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20 STR-08

CEA-02 IGA-02 DRC-01 /132 W
----- 087119

R 101120Z DEC 73

FM AMCONSUL KARACHI

TO AMEMBASSY ISLAMABAD

INF* SECSTATE WASHDC 0000

AMEMBASSY DACCA

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: BTRA, EIND, PK

SUBJECT: LOCAL RESERVE REQUIREMENTS FOR FOREIGN
BRANCH BANKS

REF: KARACHI 2449

SUMMARY: MANAGERS LOCAL BRANCHES US BANKS ALL PLEASED
WITH THEIR MEETING ON DECEMBER 4 WITH AMBASSADOR, AND
GRATEFUL FOR HIS INTEREST IN THEIR PROBLEMS. US BRANCH
BANK MANAGERS ALSO HAD JOINT MEETING WITH GOVERNOR
STATE BANK ON DECEMBER 7 DURING WHICH GOVERNOR DISPLAYED
SOME FLEXIBILITY CONCERNING DEPOSIT REQUIREMENT
WHICH MAY RESULT IN SATISFACTORY COMPROMISE. APPEARS
STATE BANK DETERMINED AT LEAST REQUIRE TRANSFER OF FOREIGN
SECURITIES TO COVER RESERVE REQUIREMENTS FROM NEW YORK
TO KARACHI. END SUMMARY.

1. FOLLOWING THEIR RETURN FROM ISLAMABAD, MANAGERS
LOCAL BRANCHES US BANKS UNANIMOUSLY EXPRESSED PLEASURE
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TO CONGEN OVER AMBASSADOR'S CONCERN WITH THEIR PROBLEMS

AND LOOK FORWARD TO CONTINUED WARM RELATIONSHIP WITH AMBASSADOR.

2. BRANCH MANAGERS US BANKS ALSO MET WITH GOVERNOR STATE BANK GHULAM ISHAQ KHAN ON DECEMBER 7. FOLLOWING MEETING MANAGERS REPORTED DEGREE OF FLEXIBILITY ON GOVERNOR'S PART IN INTERPRETING REQUIREMENTS. GOVERNOR MENTIONED POSSIBILITY EXTENSION TIME FOR LOCAL DEPOSIT OF 5 PERCENT OF TOTAL LIABILITIES TO 10-YEAR INSTEAD OF 5-YEAR PERIOD AND/OR PERMISSION FOR FOREIGN BANKS MAINTAIN LOCAL RESERVES IN FOREIGN RATHER THAN PAKISTANI SECURITIES. DETAILS OF SUCH ARRANGEMENT WOULD HAVE TO BE WORKED OUT, BUT BANK OF AMERICA MANAGER AHMED SEES SUFFICIENT SCOPE FOR COMPROMISE WITH GOVERNOR, WITH WHOM HE BELIEVES US BRANCHES SHOULD NOW WORK RATHER THAN CONCENTRATING ON APPROACH TO MINFINANCE MUBASHIR HASSAN. AHMED BELIEVES LOCAL RESERVE REQUIREMENTS FOR FOREIGN BRANCHES WILL INEVITABLE BE TIGHTENED TO SOME DEGREE BY STATE BANK IN VIEW PROBABLE INCREASE IN RESERVE REQUIREMENTS FOR PAKISTANI BANKS UP TO 10 PERCENT TOTAL LIABILITIES FROM PRESENT FIGURE OF 5 PERCENT AND CONSEQUENT DESIRE STATE BANK REMOVE GROUNDS FOR CHARGES BY PAK BANK OF FAVORITISM TOWARD FOREIGN BANKS.

3. FNCB V.P. CALLEN STILL HOPING MAINTAIN STATUS QUO ON RESERVE REQUIREMENTS AND THEREFORE PLACING MORE EMPHASIS ON POLITICAL LEVEL NEGOTIATION THROUGH ISLAMABAD. HE WILL ALSO BE PRESENTING FURTHER WRITTEN ARGUMENTS TO GOVERNOR CONCERNING IMPORTANCE TO PAKISTAN OF LOCAL US BANKING BRANCHES.

4. COMMENT: FROM REPORTS OF DECEMBER 7 MEETING WE BELIEVE SATISFACTORY COMPROMISE WILL EVENTUALLY BE WORKED OUT WITH GOVERNOR STATE BANK, WHO ACKNOWLEDGED BY ALL TO BE LEVEL-HEADED AND DOWN-TO-EARTH IN HIS APPROACH TO FINANCIAL PROBLEMS, AND WHO HAS PROFESSED DESIRE SEE FOREIGN BANK BRANCHES HERE CONTINUE THEIR OPERATIONS. TIGER

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